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Testimony in Support of HB123 as Passed by the House
Susan Jagers, Director
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Senate Finance Committee
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Chairman Oelslager, Vice Chair Manning, Ranking Minority Member Skindell, my name is Susan Jagers and I am the director of the Ohio Poverty Law Center. The Ohio Poverty Law Center advocates for evidence-based policies that protect and expand the rights of low-income Ohioans. We are a non-profit law firm working closely with Ohio's legal aid community serving Ohioans who are living, working, and raising their families in poverty. Thank you for the opportunity to testify in support of House Bill 123.

The Ohio Poverty Law Center supports HB123, as passed by the House, since it is a proven approach for keeping credit available while safeguarding consumers. We oppose efforts to undo the provisions of HB123 that would lead to higher prices or lender-friendly policies, like cooling-off periods, that have failed to protect borrowers in other states. I understand that Sen. Huffman is considering a plan to scrap key provisions of HB123 and instead have lenders “pause” loans. This is a policy that payday lenders have favored in other states, also called a “cooling off period” or a “no-cost installment plan.” Payday lenders like it because it can be easily gamed. In states that have been tracking this policy using data, fewer than 1% of loans were “paused” by lenders even though it was required by law and supposed to kick in automatically.

The payday lending industry exploits borrowers who are in financial distress by taking security interest in the family’s car title or checking account and by structuring loans with unaffordable payments and unrealistic repayment schedules. The lender is first in line to collect from the borrower’s checking account, even though the loan payments exceed the borrower’s ability to repay and the loan terms are unrealistic. As a result, 80 percent of payday loans are taken out within two weeks of a previous loan and most payday loan borrowers end up paying more in fees than they originally received in credit.

Legal aid attorneys help clients everyday who are suffering as a result of unregulated payday loans. These are just a few stories.

Phillip and Katy, now married and 28, got their first apartment together on their own at age 18. Phillip and Katy found themselves caring for young children and struggling to get by and one day they answered a direct email advertisement for a payday loan. They took out a series of at least eight payday loans throughout their early twenties and lost a vehicle to a car title loan. Katy said they didn’t understand how high the interest rates were and how that would impact their payments and the found themselves taking one out to repay another. Once Katy, the only wage earner in the family, began being threatened with a *garnishment because of the loans, they were forced to turn to Legal Aid for bankruptcy assistance.*

All of Hannah Richard's (name changed to protect client privacy) money was going toward what seemed like never-ending payments on a $2,000 auto title loan she had taken out to fix her car after an accident. An auto title loan is a loan for a small amount of money and for a short time. These types of loans can easily trap someone like Ms. Richards in a downward spiral of debt.

As the debt snowballed, Ms. Richards was no longer able to pay her rent. The 61-year-old, had to leave her long administrative career because of health issues, and was reduced to couch surfing and living out of her car. Yet the loan company insisted she still owed them nearly $1,600, even after she paid them more than double the original loan amount.

A legal aid attorney contacted the lender's attorney, who was quick to offer to drop the lien, return the title, and give Ms. Richards $1,000. When she went to the lender herself they were unsympathetic. But the company seems to have made a business decision to offer a quick settlement when contacted by a lawyer.

Robert first struggled with debt in 2007 when his mother became terminally ill and hospitalized in New York. He is disabled and lives on a fixed income of social security disability payments. He quickly found he could not afford the multiple trips to New York to visit his ailing mother. He first approached a payday lender for money to travel and eventually visited multiple different payday lenders during the year. He tried his best to stay on top of the payments but the interest compounded and the debt became too great a burden to handle on his limited income. The first two days of every month throughout the last few years, Robert travelled by bus to ten different payday lenders across the city to make interest payments. He has a brace on each leg, making the cross-city bus trips especially challenging. For years, he was bombarded with multiple phone calls a day from creditors, seriously impacting his quality of life. He reports "I would cringe and tense up every time the phone would ring. It got to the point that I disconnected my phone and would plug it in if I needed to make a call." Robert finally reached out to legal aid for assistance in filing bankruptcy.

Payday and car title lending is a critical issue that affects hundreds of thousands of struggling Ohio families. In the payday and car title loan market, lenders advertise these loans as short-term solutions for meeting life emergencies. In fact, studies show that typical borrowers are low income workers who are struggling to make ends meet and end up in debt for months on end. National research shows that more than 50 % of title loan borrowers have trouble meeting living expenses at least half of the time. Nearly 70% of payday lending customers use loans to pay recurring monthly expenses.

Research from the National Consumer Law Center and Center for Responsible Lending has found that installment versions of payday loans just keep borrowers trapped in debt for longer, rather than giving them a pathway out of debt via affordable payments. Paying back these expensive credit products prevents hard-working, cash strapped families from building the assets necessary to stabilize their families' economic health and well-being.

Lenders in Ohio have exploited a loophole in Ohio's 2008 legislation. Now they operate as loan brokers, which enables them to dramatically increase the fees they charge. As a result, we pay the highest prices of any state, and auto title lenders operate with abandon, even though the legislature has never authorized auto title loans. It also enables these companies to make dangerous installment loan products without any safeguards.

HB123 will reform the payday loan market, save Ohioans $75 million each year, and maintain access to credit for borrowers. Protections in this sensible reform include:

- Rates that are fair for borrowers and viable for lenders.
- Affordable installments payments that shield 95% of a borrower's income from lenders.
- Reasonable time to repay.
- Fees and interest spread evenly over the life of the loan, rather than front-loaded.

We ask you to resist the urge to compromise on the legislation in a way that will weaken the consumer protections in favor of a small group of lenders. HB 123 is well designed and it would not put payday lenders out of business. It would ensure that responsible lenders are able to compete under a more transparent law to the benefit of Ohio's consumers and communities. Please do not make ill-conceived changes to this bill at the last minute, such as the idea proposed by Senator Huffman to strip out affordability limits from HB123 and instead have payday lenders give borrowers legal advice about bankruptcy. On behalf of consumers and practitioners who see the devastation caused by payday loans every day, please pass HB123 as introduced to give Ohio families much needed relief.

I thank you for the opportunity to testify and I would be happy to answer any questions.